

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58070

ANACORTES HOUSING AUTHORITY

Skagit County, Washington

April 1, 1995 Through March 31, 1996

Issue Date: January 31, 1997

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ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements, as listed in the table of contents, of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Anacortes Housing Authority is the responsibility of the housing authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the housing authority's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the housing authority complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the housing authority's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the housing authority and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Federal Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our report on general requirements and in the Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the housing authority, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the housing authority's management in our report on general requirements and the Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Financial Statements Of HUD Supported
Programs And Supplemental Information Required By HUD**

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the accompanying financial statements of the programs supported by the U.S. Department of Housing and Urban Development (HUD) of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the HUD supported programs of the housing authority and are not intended to present fairly the financial position and results of operations of the Anacortes Housing Authority, taken as a whole, in conformity with generally accepted accounting principles.

The housing authority's policy is to prepare its financial statements referred to above on the basis of accounting practices prescribed or permitted by HUD, which is a basis of accounting other than generally accepted accounting principles. The accounting practices prescribed by HUD differ from generally accepted accounting principles, including the lack of required note disclosures. The effects of these departures from generally accepted accounting principles are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial positions of the HUD supported programs of the Anacortes Housing Authority as of March 31, 1996, or the results of their operations for the fiscal year then ended.

However, in our opinion, such financial statements present fairly, in all material respects, the financial positions of the HUD supported programs of the Anacortes Housing Authority at March 31, 1996, and

the results of their operations for the fiscal year then ended, in conformity with the prescribed basis of accounting.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Information for Analysis of Surplus (required by HUD Handbook 2000.04 Rev-1 for multifamily projects with HUD held or insured mortgages if separate audit not submitted) is not a required part of the financial statements but is supplemental information required by HUD. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of the respective HUD supported programs and, in our opinion, is fairly presented in all material respects in relation to the financial statements of such programs taken as a whole, on the basis of accounting practices prescribed or permitted by HUD.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 1996, on our consideration of the housing authority's internal control structure and a report dated September 10, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996. These financial statements are the responsibility of the housing authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Anacortes Housing Authority taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996.

We have applied procedures to test the housing authority's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended March 31, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Cash management
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Except as described in the following paragraph, our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the housing authority had not complied, in all material respects, with those requirements. However, the results of our

procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Federal Findings.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996.

We also have audited the housing authority's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended March 31, 1996. Those requirements include:

- Modernization and Development Programs
- and claims for advances and reimbursements

The management of the housing authority is responsible for the housing authority's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the housing authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Anacortes Housing Authority complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended March 31, 1996.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996.

In connection with our audit of the financial statements of the housing authority and with our consideration of the housing authority's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance program for the fiscal year ended March 31, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the housing authority's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Anacortes Housing Authority had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Anacortes Housing Authority
Anacortes, Washington

We have audited the financial statements of the Anacortes Housing Authority, Skagit County, Washington, as of and for the fiscal year ended March 31, 1996, and have issued our report thereon dated September 10, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the housing authority complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the housing authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 10, 1996.

The management of the housing authority is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
Cash receipts
Accounts payable, purchasing, and receiving
Property, plant, and equipment
- **General Requirements**
Political activity
Davis-Bacon Act
Civil rights
Federal financial reports
Allowable costs/cost principles
Drug-Free Workplace Act
Administrative requirements
- **Specific Requirements**
Modernization and Development Programs
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
Cash disbursements
Receivables
Payroll
Inventory control
General ledger
- **General Requirements**
Cash management
Relocation assistance and real property acquisition
Subrecipient monitoring
- **Specific Requirements**
Types of services
Eligibility
Matching, level of effort, earmarking

Reporting
Special requirements

- **Amounts Claimed Or Used For Matching**

During the fiscal year ended March 31, 1996, the housing authority expended 63 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the housing authority's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the housing authority's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Federal Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 10, 1996

ANACORTES HOUSING AUTHORITY
Skagit County, Washington
April 1, 1995 Through March 31, 1996

Schedule Of Federal Findings

1. The Fixed Asset Recording System Should Contain Information Required By Federal Grant Requirements And The Fixed Asset Control System Should Be Strengthened

Our review of the Anacortes Housing Authority's fixed asset system revealed the following weaknesses:

- a. The housing authority did not have written policies and procedures to account for the acquisition, capitalization, and disposition of assets.
- b. The housing authority did not adequately ensure all assets were included in the fixed asset records. However, we noted no instances which would materially affect the financial statement balances.
- c. The housing authority removed assets from the fixed asset records without determining if they were properly disposed of. Assets included two refrigerators, one pager, and one pager charger.
- d. The housing authority did not have accurate fixed asset records available with which to reconcile annual physical inventory counts.
- e. The housing authority's system did not ensure assets are identified as housing authority property, nor do their records identify the location, use, and condition of the property or the source of funds used to acquire assets.

For any fixed assets purchased by the housing authority using federal funds, the "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* prescribed by the U.S. Office of Management and Budget (OMB), Subpart C, Section .32(d), Management Requirements, states in part:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property

RCW 43.09.200, Local government accounting) Uniformed system of accounting, states in part:

The state auditor shall formulate, prescribe and install a system of accounting and reporting for all local governments . . . The accounts shall show the receipt, use, and disposition, of all public property

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states, in Volume 1, Part 3, Chapter 7, page 7:

Accountability for fixed assets is required of all local government, regardless of size

While the housing authority appears to have made some effort to improve its fixed asset recording system, it still has not allocated sufficient resources to implement the necessary internal controls and accounting procedures to properly account for fixed assets.

The housing authority's lack of adequate accounting procedures and internal controls over fixed assets results in the possibility of errors and irregularities occurring and not being detected in a timely manner, if at all. In addition:

- a. The lack of an adequate system to identify housing authority property increases the risk of loss or theft occurring without the knowledge of the housing authority's management.
- b. The housing authority is unable to ensure assets are recorded properly and are accurately reported in its financial statements.
- c. The housing authority cannot substantiate the location of assets removed from the fixed asset records (i.e., disposed, recycled, sold, stolen, etc.).
- d. The housing authority is unable to identify fixed assets acquired with federal funds and the final disposition of such property, thereby failing to comply with requirements of the "Common Rule". These deficiencies can impair the housing authority's eligibility for future assistance.

We recommend housing authority officials strengthen the fixed asset internal control system to ensure housing authority property is adequately safeguarded and accounted for. We further recommend housing authority officials develop a fixed asset recording system capable of demonstrating compliance with federal grantor requirements.

Auditee's Response

Items #a. and #b. we agree upon discussion, there are areas which need to be improved, since there does not seem to be any written policy to ensure that procedures are carried out correctly.

In response to item #c. of the draft copy: The board approved the removal of the fixed assets from the recommendation of the Director. The Director was aware of how and when these items were disposed of. The discrepancy that your office discovered and we agreed upon, after discussion, is that there was no documentation. The pager and charger, which were noted in the draft, was an asset which was stolen out of one of the vehicles, therefore no disposal receipt exists. The Director and the Maintenance Personnel were aware of what occurred, however, the documentation was not carried

through. The refrigerators (by ongoing practice of this organization) are left in a fenced area and are picked up by the City Sanitation Department, then billed for in a lump sum.

We discovered a file containing past inventory for both supplies and fixed assets. However, at the end of the previous fiscal year, we do not see that any kind of reconciliation was carried out. With the Director taken ill so suddenly, we believe if she had been here to explain her method of tracking fixed assets, this would not appear to be a lack of control.

The newly implemented computer system allows the Housing Authority to enter data on all fixed assets including: location, purchase price, receipt, use and disposition. Also, a physical inventory was done of all assets not presently assigned to specific tenants' units. Serial numbers were noted as well, along with Housing Authority identification, which was placed on the item at purchase. Those items which are unit specific are noted in each unit file and have always been reconciled yearly at the Unit Annual Inspection.

2. The Housing Authority Should Administer Contracts In Accordance With Federal And State Requirements And The Contract Agreement

The Anacortes Housing Authority does not have an adequate system of administrative controls to properly ensure the facilitation of the Public and Indian Housing Comprehensive Improvement Assistance Program (CIAP). During our review of this grant, we noted the following:

- a. Four instances were noted in which the housing authority failed to require original documentation from three separate vendors. The inadequate documentation supported expenditures totaling \$6,598, subsequently paid for with CIAP funds. During the audit, the housing authority made attempts to acquire documentation to support these expenditures, however, original documentation was not received.
- b. The housing authority did not require the vinyl siding contractor to prepare a construction progress schedule detailing specific dates and amount of work to be completed to correspond with contractor payments.
- c. The housing authority approved the vinyl siding contractor's payment requests for materials and work even though items were identified by the housing authority's modernization coordinator as failing to meet contract specifications and the housing authority's standards of quality.

CIAP grant provisions specifically require grant reimbursements be properly supported by the underlying expenditure records. In addition, RCW 43.09.200 states:

The state auditor shall formulate, prescribe and install a system of accounting and reporting for all local governments . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever . . . The accounts shall show . . . all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

The Office of Management and Budget's "Common Rule," Subpart C, states in part:

(2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

The Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book 7485.1 Revision 4, Section 9-18, states in part:

(a) The PHA shall require the contractor to prepare a construction progress schedule, for each project immediately after PHA issuance of the notice to proceed . . .

(b) The PHA or its architect shall review the contractor's construction progress schedule to determine that the scheduled dates and amount of work to be completed are reasonable and consistent with the contract . . .

Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book 7485.1 Revision 4, Section 9-20 states in part:

The PHA shall review each contractor request and shall approve the payment . . . If the contractor requests payment for items which have not been acceptably completed, the PHA shall delete those items and adjust the payment accordingly.

Public and Indian Housing Comprehensive Improvement Assistance Program Hand Book 7485.1 Revision 4, Section 10-15 states in part:

PHA shall have the final responsibility for ensuring the work quality and progress.

The problems noted appear to be the result of staff turnover and a lack of knowledge regarding grant requirements.

By improperly administering federally funded contracts, the housing authority could jeopardize future federal funding and be held accountable for allowing substandard housing to be occupied. In addition:

- a. When payments are allowed to be made on copies of original documents the housing authority increases the risk documents may be changed during the duplication process resulting in errors and/or irregularities which may not be discovered in a timely manner, if at all. Also the housing authority cannot ensure the validity and appropriateness of the expenditures which could result in the housing authority being required to pay back part or all of the grant funds or effect the receipt of grant funding in the future.
- b. Prepayment of contracted costs could occur when a construction progress schedule, detailing specific dates and amount of work to be completed, is not maintained.
- c. Additional costs were incurred to utilize the services of an independent party to inspect the project, and to pay the original contractor to correct deficiencies found in the contracted work.

We recommend the following:

- a. The housing authority require the submission of original, detailed documentation to support all expenditures incurred.
- b. The housing authority require contractors to prepare, for housing authority approval, a construction progress schedule detailing specific dates and amount of work to be completed to correspond with contractor payments.
- c. The housing authority withhold payments to contractors until the housing authority is satisfied the work has complied with contract specifications and the housing authority's standard of quality.

Auditee's Response

We do see instances when payment was withheld because of some sort of discrepancy or the contractor had not submitted all required paperwork mandatory per HUD regulations. The daily inspection log, which could have further acknowledged the completion of the work items, was deliberately taken upon the departure of the Mod. Coordinator and was never returned, even upon request.

Auditor's Concluding Remarks

We would like to thank the Anacortes Housing Authority for its written response to our audit report. During the audit, we determined the housing authority withheld payment based on the following: 1) The modernization coordinator's July 5, 1995, monitoring check list report; 2) The housing authority's documentation of a meeting conducted with the superintendent of the vinyl siding company on April 11, 1996; and 3) A memo submitted to the president of the vinyl siding company on April 12, 1996, indicating the work performed was not in accordance with the bid specifications and/or housing authority standards and would require corrective action. None of these occurrences were taken into consideration when the housing authority released payments of \$50,000 and \$25,000, less retainage, on April 8, 1996, and May 13, 1996, respectively. In addition, as the housing authority noted in their response, there are missing records. It is the responsibility of the housing authority to possess all records supporting the housing authority's compliance with federal, state, and local requirements. We reaffirm our finding.

We would like to express our appreciation to the management of the Anacortes Housing Authority for its effort to comply with our recommendations. We will review the status of the housing authority's compliance with our recommendations as part of the next regularly scheduled audit. We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.